



COMPETING GLOBALLY WITH INVERTED TARIFFS

Wabasha Motor Company*—Small Engine Parts Importer

Situation

WMC manufactures small engines for lawn and garden products and recreational vehicles. While WMC sources as much as it can from U.S. suppliers, it must still rely on foreign suppliers for certain goods.

- Approximately 20% of WMC's engines are shipped to a golf cart manufacturer in Toronto.
- WMC annually purchases \$25 million of parts for its engines from Japan and Taiwan. These parts are subject to an average Customs duty of 3%.
- WMC recently lost one of its major customers to a Japanese competitor due to competitive pricing as foreign competitors pay no duty on finished engines shipped to the U.S. The small engines WMC manufactures are one of many commodities subject to an "inverted" or "irrational" tariff which means components have a higher rate of duty than finished goods. WMC was forced to pay \$750,000 more in Customs duties than foreign competitors on an annual basis.

Analysis and Opportunity

WMC needed to improve its competitive ability, but was reluctant to move production outside the U.S. With the help of a consultant, WMC learned that manufacturing their products within the boundaries of a Foreign Trade Zone (FTZ) allowed flexibility in manipulations and great financial advantages.

- Because WMC was not within the boundaries of a general purpose, public Zone site, WMC contacted The Greater Metropolitan Area Foreign Trade Zone Commission to sponsor an application to the U.S. Department of Commerce to make the WMC facility an FTZ Subzone site.
- WMC engines exported to Canada from an FTZ are automatically free of duty.
- Duty paid on foreign content in the engines sold in the U.S. may be paid according to the duty rate of the finished engine.

Results

WMC was able to maintain its manufacturing and production in the U.S. and compete globally. As an FTZ operator, WMC is responsible for some additional administrative costs. However, these costs for WMC represented only 3% of the potential annual duty savings of \$750,000.

Use the GMAFTZC Savings Calculator to help you determine how the FTZ can improve your company's profits.

*The names have been changed to protect the proprietary nature of the business.

